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Understanding the Importance of Wage Employment for Rural Development: Evidence from Senegal

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Abstract

The literature on the rural non-farm economy and non-farm employment often neglects agricultural wage employment. This neglect is rooted in the idea that such employment cannot significantly contribute to household welfare and rural development because it is a low-return and insecure type of employment. In this paper we specifically focus on off-farm wage employment, disentangle different employment sectors, and estimate the impact on household welfare. We use two-round panel data from Senegal, and fixed effects regressions and differencing techniques. We use static as well as intertemporal measures of welfare. We find that entry into wage employment increases per capita income with 140 %, smoothens income significantly, reduces the likelihood to be poor with 34% points and the likelihood to become or remain poor with 16 %. Despite substantially lower wages for casual and agricultural employment, we find substantial income-enhancing and poverty-reducing effects of such employment. Casual employment is found to at first smooth incomes and to then boost incomes either through upward employment mobility to higher-return jobs or through relaxing investment constraints and increased income from self-employment. We conclude that jobs are important for rural development as they both smooth and boost rural incomes; that the agricultural sector can be an important source of jobs; and that casual jobs can be an important source of upward income mobility. The paper corroborates claims on the importance of the rural non-farm economy but refutes the idea of casual or agricultural employment not contributing to household welfare and rural development. This calls for a reconsideration of the definition of the rural non-farm economy to include agricultural wage employment as a full component.

Keywords: Panel data, rural development, Senegal, wage employment